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**UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEVADA**

In re:
SOUTH EDGE, LLC,
Debtor.

Chapter 11
Case No. BK-10-32968

**SECOND CASE STATUS REPORT OF
CYNTHIA NELSON, CHAPTER 11
TRUSTEE**

**Hearing Date: June 29, 2011
Hearing Time: 1:30 p.m.
Courtroom: Courtroom #3
Foley Federal Building
300 Las Vegas Boulevard
Las Vegas, Nevada 89101**

**TO THE HONORABLE BRUCE A. MARKELL, UNITED STATES BANKRUPTCY
JUDGE:**

Cynthia Nelson, the chapter 11 trustee (the "Trustee") of the chapter 11 bankruptcy estate (the "Estate") of South Edge, LLC (the "Debtor" or "South Edge"), hereby files this status report in accordance with representations made to the Court by the Trustee at hearings that took place before it on April 20, 2011, and so as to keep the Court, and all parties in interest in this chapter 11 case (the "Case"), apprised of the Trustee's activities and developments in the Case.

The Trustee and her professionals have been engaged in numerous activities in the weeks since the Trustee submitted her initial case status report to the Court on May 19, 2011 (the "First Status Report").

Settlement Among Agent and Builder Members and Trustee's Consent. JPMorgan Chase Bank, N.A. ("JPMorgan" or "Agent"), as Agent under South Edge's prepetition credit agreement (the "Credit Agreement"), and lenders that represent more than 92% in dollar amount and 94% in number of total lenders under the Credit Agreement (the "Consenting Lenders") have agreed to a settlement (the "Settlement") with KB Home Nevada, Inc., Coleman-Toll Limited Partnership, Pardee Homes of Nevada, and Beazer Homes Holdings Corp., each of which is an equity member (a "Member") of South Edge, and the respective parent guarantors of each such Member (collectively, the "Settling Builders"; and together with JPM and the Consenting Lenders, the "Settlement Parties"), in the form of term sheet for a chapter 11 plan of reorganization (the "Plan") appended to an agreement regarding support for and a timetable regarding confirmation of the Plan (the "Plan Support Agreement"). If successfully implemented, the Settlement resolves all disputes between the Settlement Parties and contemplates the Debtor's exit from this Case by November 30, 2011.

The Trustee is not a party to the Plan Support Agreement and will not be a proponent of the Plan. However, the Plan Support Agreement required the Trustee's consent, unless waived by the Settlement Parties. The Trustee is supportive of the Settlement, the Plan, and the process by which confirmation of the Plan will be sought, but was not in a position to execute the consent in the form initially proposed by the Settling Parties. While the Agent determined to waive the requirement for the Trustee's consent, the Trustee successfully negotiated with the Settling Builders a qualified and conditioned form of consent by which the Settling Builders agreed to certain matters not otherwise addressed in the Plan Support Agreement, pursuant to which the Trustee will be supporting confirmation of the Plan (the "Trustee's Consent").

TIP Financing. An essential element of the Settlement is the Settling Builders' provision to the Trustee of up to \$31.4 million in senior secured postpetition financing (the "TIP Financing"). The TIP Financing will provide the Trustee and the Estate pursuant to a budget through the end of November 2011 with access to funds necessary to pay (i) operating disbursements on account of, among other items, the further construction of infrastructure segments of the Debtor's real estate development (the "Project"), Project maintenance, Project

1 security, surety bond obligations, and the administration and collection of proceeds from the LID
2 T-18 bonds held by the City of Henderson (“LID Proceeds”), (ii) LID T-18 bond assessments
3 and property taxes, and (iii) bankruptcy-related disbursements, including United States Trustee’s
4 fees and the fees and expenses of the Trustee, her professionals, and the Agent’s professionals.
5 The TIP Financing will be secured by priming liens in LID Proceeds received by the Estate,
6 which proceeds already constitute the collateral of the Agent.

7 The Trustee believes that the negotiation and documentation process regarding the TIP
8 Financing is nearing completion and anticipates being able to file a motion to approve the TIP
9 Financing in the near future. The Trustee will request that such motion be heard on shortened
10 time.

11 **Cash Collateral Use.** The Trustee is authorized to use what little cash collateral is
12 currently held by the Trustee pursuant to the Court’s April 21, 2011 order [Docket No. 624]
13 approving on a final basis that certain *Stipulation Providing For Post-Petition Financing and*
14 *Use of Cash Collateral* (as subsequently amended to, the “Cash Collateral Order”). The Court
15 has entered two subsequent orders approving stipulations extending the Trustee’s right to use
16 cash collateral through July 1, 2011. As Court approval of the TIP Financing is not expected to
17 take place until sometime after July 1, 2011, the Trustee is now documenting a further stipulation
18 (the “Third Extension Stipulation”) extending the Trustee’s right to use cash collateral through
19 the end of July, 2011.

20 **Ongoing LID Work.** Work has been completed with respect to LID T-18 segments ST-
21 1 E, G and H, and all required documentation has been submitted to the City for reimbursement
22 (in the amount of approximately \$624,000). The City will be considering the Trustee’s payment
23 request at its July 5, 2011 Council meeting. In view of the Settlement and in anticipation of the
24 TIP Financing, the Trustee is working closely with its newly-retained construction manager,
25 Advantage Civil Design Group, LLP, to solicit bids from firms that will complete further
26 infrastructure construction work relating to LID T-18. The completion of such work is a
27 prerequisite to the Estate’s (or its post-reorganization successor’s) recovery of, in the aggregate,
28 some \$35 million in LID proceeds.

1 **Focus Litigation.** In the First Status Report, the Trustee reported her intent to pursue,
2 through litigation in the Bankruptcy Court, the Estate's rights and remedies against Focus South
3 Group, LLC and certain of its affiliates (collectively, "Focus") in connection with, among other
4 things, the Estate's ownership interest in more than \$26 million in cash (the "Disputed MI
5 Deposit") that Focus currently maintains in an account at JPMorgan. On May 23, 2011, the
6 Trustee initiated an adversary proceeding seeking over \$31 million in property turnover and
7 damage claims against Focus with the filing of the *Trustee's Complaint For Turnover Of*
8 *Property Of The Estate, Fraudulent Transfer, Violation Of Automatic Stay, Payment Of Debt*
9 *Owed To The Estate, Resulting Trust, Breach Of Operating Agreement, Conversion, Gross*
10 *Negligence, And Declaratory Judgment* (the "Focus Complaint").

11 **Investigation of Agent's Liens and Security Interests.** Pursuant to the Final Cash
12 Collateral Order, the Trustee had until June 20, 2011, to complete an investigation of the validity,
13 extent, perfection, priority, and enforceability of the Agent's claims and liens against the Debtor and
14 the Debtor's real and personal property assets, excluding from such investigation and bar date only
15 the allowable amount of the claim and the validity, extent, perfection, priority, and enforceability of
16 the Agent's and the Lenders' claims and liens against the prepetition MI Deposits and the application
17 of such MI Deposits or the proceeds thereof by the Agent. The Trustee has completed such
18 investigation and, based upon that investigation, has concluded not to challenge the validity, extent,
19 perfection, or enforceability of the Agent's claims and liens.

20 **Document Recovery.** The Trustee continues to make demands on Focus and others for
21 the turnover of books and records relating to the Debtor that the Trustee believes constitute
22 Estate property. The Trustee reserves the right to bring litigation to compel the turnover of any
23 such books, records and documents that have not been delivered to the Trustee.

24 **Appeal of Involuntary Petition/Trustee Appointment.** On April 28, 2011, the United
25 States District Court, District of Nevada entered an order (the "Dismissal Order") that, *inter alia*,
26 (i) granted the Trustee's motion to dismiss appeals filed by the Debtor to each of the Order of
27 Relief and the Order Directing Appointment of Chapter 11 Trustee, each entered by the
28 Bankruptcy Court on February 3, 2011 [Docket Nos. 400 and 401], and (ii) denied the

1 Emergency Motion for Leave to Intervene in Appeal filed by the Builder Members. Each of the
 2 Debtor and the Builder Members has appealed the Dismissal Order to the Ninth Circuit Court of
 3 Appeal. In view of the Settlement, all the parties to the appeals (except for Builder Member
 4 Meritage Homes of Nevada, Inc., which is not a Settling Builder) have consented to the entry of
 5 an order: (i) suspending any further briefing on the appeals, until further notice; and (ii) setting a
 6 status conference on the appeals for December 15, 2011 at 11 a.m. PST. The mediator has stated
 7 his intention to file an order reflecting the parties' agreement next Monday.

8 **Senate Bill 506.** On June 16, 2011, Senate Bill 506 was signed into law by the Governor
 9 of the State of Nevada. Among other benefits, Senate Bill 506 will provide local authorities with
 10 greater flexibility to modify (i) project improvements required under municipal bond documents
 11 issued in connection with local improvement districts and (ii) bond assessments relating to such
 12 local improvement districts. The Trustee and her professionals continue to assess the full
 13 ramifications of Senate Bill 506 to the Estate.

14 Dated this 24th day of June, 2011.

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 16 By: /s/ Jeanette E. McPherson
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